

# Historical studies in international corporate business

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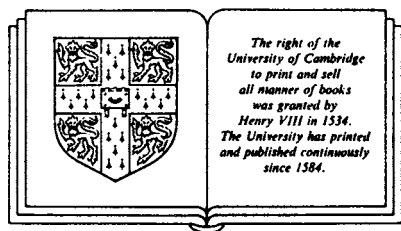
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# 1 Introduction: multinational enterprise

BARRY SUPPLE

So much work has already gone into this theme, and so many accomplished experts have contributed papers on the general and theoretical, as well as on the detailed and empirical question of multinational enterprises, that there hardly appears much scope for a further contribution. And yet the sheer volume and variety of submissions – evidence of the pervasive significance of the topic as well as of the persistence of the organisers of this session – mean that some search for main issues might be useful. Looking through the contributions on multinational enterprises produced for this Congress, it is not difficult to detect a small number of themes which recur, and are worth emphasising.

## I

The initial point is perhaps an obvious one. It concerns the role of historical research. The problem of multinational firms actually existed in the contemporaneous world of economic observation and political anxiety before it became a fully-fledged and explicit topic of historical inquiry. As with other questions in applied economics (inflation, for example, or economic development), it soon became clear that not only did multinationals have a history, they also only *exist* in history. The historian's task, then, became the essential one of empirical elucidation: to examine the origins of multinational enterprise and investment, to produce a typology of such activities, and to suggest (through case-studies and comparative work) answers to such questions as: Why do multinational enterprises evolve? What explains the varying forms they take? What have been the determinants of their success and failure? What economic and political repercussions have they had on their 'host' countries?

Before turning to some of these specific issues, it is worth drawing attention to the almost inevitable methodological consequences of recruiting History to such a task.

First, historians discovered (or, rather, reminded themselves) that

multinationals were by no means a new phenomenon in the 1960s – or even in the twentieth century. Examples of firms whose investments and activities transcended national boundaries could, indeed, be identified in very early times. However, in terms of the issues which are most relevant to the question in the later twentieth century, the effective origins of modern multinationals lay in the second half of the nineteenth century. For it was then that the growth of large-scale corporations (especially manufacturing firms) coincided with the emergence of an international economy. And it was this coincidence which stimulated the diffused extension of international activity beyond the contractual structures of the market or the authoritarian boundaries of state activity.

The second result of exploring the historical dimension was a reminder of the cosmopolitan nature of the subject. The point which was emphasised and has since been extensively elaborated was that multinational activity was decidedly not devised by American companies in the 1960s. Rather, West Europe generally and Britain in particular have figured very prominently in the century or more of modern history in which multinationals have flourished. This fact, in turn, had two broad implications.

On the one hand, the development of multinational enterprise, although still a relatively late phase in the long evolution of capitalism, has not been *distinct* from the trends which have characterised modern industrialism since the mid-nineteenth century. Instead, it has been intimately bound up with the emergence of the modern firm and the modern international economy. On the other hand, the suspicion of American economic ‘imperialism’, or anxieties about the monopolistic tendency in mature capitalism, which played such an important role in the conceptual identification of the multinational company in the 1960s, may well have been misplaced. For the phenomenon has, in a sense, been omnipresent. In itself, then, it does not represent a higher (perhaps even the final) stage of capitalism. At the same time, however, it might still be possible to argue (as I shall suggest in a moment) that, even though the multinational enterprise has been an integral part of international economic growth for over 100 years, its more *recent* flowering indicates a new phase. Yet the fact remains that, unless we are to believe that the modern state never had an independent existence, there has clearly been no *linear* trend towards political control or the erosion of sovereignty by multinational companies. Instead, their history has been one of variety and of oscillation between dependence and assertion, autarky and internationalism, free markets and managed economies.

The third consequence of the particular historiography of multinationals is a rather more methodological one, and is well illustrated in the abundance and diversity of papers submitted for this theme. Given the ingenuity of historians and the empirical abundance of the past, the ‘lesson’ of history appears to be that the reality of things is much more complicated than

'theory', or attempts at theorising, would lead us to expect. Useful and systematic generalisation seems almost impossible. Yet this is hardly surprising: in the 'real world' which history attempts to describe, simple categorisations rarely exist; everything *does* seem connected with everything else; dense variety seems universal. As so often happens, the outcome of historical research is the paradoxical conclusion that while the past is a seamless web, individual institutions are also distinctive. On both scores – the obstacles to conceptualisation and the uniqueness of phenomena – history (as always) undermines the drive towards theory. And in the case of multinational enterprises, it blurs the distinctions and characteristics, the causal chains and explanations, which the desire for conceptual clarity presupposes.

## II

Against this rather general background, it is also possible to distinguish a number of more specific issues relating to the question of multinational enterprise as it emerges from the literature presented to the Congress held in Bern in August 1986.

The first, and most fundamental, point is of course the definitional one. What, exactly, are we talking about when we refer to multinational enterprise? And even if we can adequately specify an institutional form, is it *sufficiently* different from other modes of behaviour to justify close conceptual analysis?

This issue is in many respects similar to the debate about the conceptual distinctiveness of international economic theory. Indeed, even more strikingly than in the case of international as against national markets and trading, the question arises as to whether *explanations* of the growth of international firms are conceptually very different from explanations of the growth of the firm in general. It is, after all, striking that concepts such as market internalisation, the control of transaction costs, and the harbouring of returns from technical and managerial advantages, can all be used indifferently to explain the growth of firms (and of internalised and non-contractual relationships) *within* a national economy as well as across national boundaries. In fact, and as with theories of international trade, the essential difference – the consideration which might justify the separate treatment of multinational enterprises – is, precisely, the existence of contrasting *national* economic arrangements, and of political boundaries with the concomitant assertion of economic control, or of devices to avoid its consequences.

Multinational firms are therefore worth studying at a different level from intra-national firms because their activities bridge markets which are more *obviously* separated from each other (by distinctive currencies, laws, controls,

capital and labour supplies, and institutions) than are the markets *within* particular countries.

The fact that multinational firms encompass transactions which were formerly mediated by more purely market institutions raises two related points of considerable significance for historians. First, to what extent do they represent a distinctive stage of economic evolution? Second, what are the implications of the growth of multinational enterprises for the political economy of the modern state?

As economists and contemporary historians remind us, modern multinationals now tend to predominate in technology-intensive industries, providing closely integrated packages of scarce technology, capital and associated managerial skills. It was not always so, and until 1914 – perhaps until the 1960s – resource-based international firms, or multinational enterprises with an effective command of mobile investment funds, tended to be much more important. This is not to deny that some ‘core’ characteristics have remained more or less unchanged (the management of international capital or technology flows, for example). But both the relative importance and the orientation of multinationals have obviously changed in the last quarter of a century – and with them has changed the nature of economic decision-making in the *developed* world.

There is, of course, a question as to whether the resulting internalisation of markets may have had outcomes as ‘rational’ as those produced by ‘external’ and more competitive markets. From the perspective of the ‘host’ countries, however, once multinationals attain a large size, there is an apparently greater volatility of economic processes, an easier circumvention of local market and institutional conditions, more abrupt changes in the flow of investment and economic activity. At one level it might be argued that all this represents an artificial and deleterious influence, since the operation of multinationals, by transcending national boundaries, has ‘distorting’ effects on patterns of employment, investment and industrial location. The overt business policies of individual firms, and above all of firms with an international base, is now a much more critical consideration in the performance of industrialised economies.

On the other hand, and assuming that multinational firms are primarily influenced by costs, prices, and profit-motives, the internalisation of markets may indeed make for a more ‘rational’ or *effective international* allocation of resources and economic activities than would have obtained if production and trade had been managed solely by contractual relationships. This is because such contractual relationships would have to encounter the imperfections of transnational markets for factors of production, goods and services. They would be impeded by tariffs and laws, controls and national institutions. In this sense the enormous growth in multinational enterprise

may therefore well have shaped what Dr Cantwell calls a 'global capitalism'. In other words, the unusually rapid growth of multinational networks may be tipping the balance to a new, *and much more cosmopolitan*, pattern of decision-taking. And although the outcome for individual national economies may be a greater vulnerability to economic fluctuations and structural changes, the overall result may (paradoxically) be a closer approximation to the theoretical world of market economics and mobile resources.

This also has implications for the 'remoter' history of multinationals in the nineteenth century. For example, to what extent did they contribute to the overcoming of barriers to the cosmopolitan operation of the emerging world economy? Is it possible that the creation of an international economy in the late nineteenth century was as much dependent on the growth of multinational firms (in service as well as primary and secondary industries) as on the easing of market contracts and transactions? Were markets extended through the expansion of the firm *across frontiers* rather than the proliferation of individual firms, contracts and competition?

A good deal of historical research, like economic theorising, has gone into explaining the origins and processes by which multinational firms have grown over the last century or so. And this is an undoubtedly important issue. But it is at least equally important to explore the varying consequences of the *existence* of such firms, as distinct from the prolongation of markets, contracts and institutional distinctions between different economies.

All this primarily concerns the multinational enterprise as a market phenomenon. But, as is widely accepted, it is misleading – even unreal – to concentrate on economic relationships alone. A good deal of the historical contribution to the discussion of multinationals makes it clear that intermingled with the 'internationalism' which characterised their activities were the national anxieties and resentments at 'foreignisation' of economic activity. Operating across national boundaries and in varying institutional settings is, after all, a political as much as an economic process; and its apparent 'economic' consequences can have predominantly 'political' effects in terms of local reactions to the concentration of decision-taking and specific patterns of investment, employment, production, and trade. Alternatively, the sheer scale and scope of multinational enterprises operating within relatively less well developed societies, has frequently given such firms a disproportionate political and social role.

I end these comments, therefore, on an obvious but I hope useful note. Multinational enterprise may, after all, be a matter for political economy rather than economic theory. Hence the fact that, conceptually speaking, multinationals and foreign direct investment may not be easily distinguishable from 'ordinary' firms and 'normal' capital accumulation and investment is not necessarily significant. Given the new-found concern of

economists with institutional analysis, and the enduring interest of historians in the interlocking of economic, social and political considerations, we may well be able to accept without intellectual guilt that the central features of multinational enterprise have, in the last resort, been their political and institutional implications.